

Treasury Notes

Office of the State Treasurer Lynn Fitch

Issue 5 • December 2014

• Lynn's Ledger • Bonds to be Sold in January

Each year, the State of Mississippi issues general obligation debt for the purpose of financing various projects throughout the State. As we prepare to conduct another bond sale next month, it is vital to approach our public debt in a fiscally conservative way. Prudent management of state finances ensures not only that our solid credit rating stays strong, but also that the burden on taxpayers is lessened over time.

Bond issuance begins with the Legislature. During the Session, lawmakers consider projects that will be financed by borrowing, and (most years), those end up in a "bond bill," which, when passed, will go to the Governor for approval. These projects can include capital improvements for state buildings (such as university and community college campuses, and state park improvements), construction of roads and highways, and economic development projects (such as Toyota, Nissan, Yokohama).

The process then shifts to the State Bond Commission, composed of the Governor, Treasurer, and Attorney General. The Bond Commission decides which projects to fund, and actually issues bonds, typically once a year. This year, we plan to offer approximately \$286 million in municipal bonds. Approximately \$157 million in tax-exempt bonds will be sold to fund improvements on our college campuses, construction of the Mississippi History & Civil Rights Museums, and improvements at state parks. Our plans also include issuance of \$129 million in taxable bonds to finance economic development projects administered through the Mississippi Development Authority.

Examples of the latter projects include specific deals like Toyota and Yokohama, as well as programs like Workforce Training and Industry Incentive Financing. Through the funding and development of these programs, Mississippi's job base and economy can grow.

As we move forward with our bond sale, however, it is vital to weigh the benefits of projects and programs financed with debt with the cost to taxpayers. The State must plan for long term priorities, and work to reduce our overall debt burden over time. If we manage our finances conservatively, we can both fund priorities and ensure a strong economic future for Mississippi.



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Lynn Fitch
STATE TREASURER

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Rating Agencies Determine State Credit Rating

Credit ratings play a very important role in the issuance of debt. Ratings are one of the factors that affects the State's cost of capital on debt issuance. Before the State issues any debt (usually through a bond sale in the Fall of each year), the Office of the State Treasurer reaches out to each of the Rating Agencies to request a rating on the State's financial health and our ability to pay back our bondholders. Currently, the state is rated very highly by all 3 major rating agencies (Moody's – Aa2; Standard & Poor's – AA; Fitch – AA+). This is considered superb credit and is viewed very positively in the open market.

Over the last several years, the pre-sale of our bonds has been oversubscribed (meaning that we have more buyers wanting our bonds than we have bonds available to sell). In fact, the oversubscription has been up to four times what we have available to sell during recent bond sales.

Each year, the rating agencies present to the state a list of policy priorities that could help us improve our ratings – like reducing poverty, increasing educational attainment (especially higher education and financial literacy), less reliance on the use of non-recurring revenue, and unfunded liability in the state retirement system (PERS). We have made great progress in these areas. For example, this past summer, we shared with the agencies that our FY15 budget was balanced with no reliance on one time dollars – meaning we are relying on recurring revenue to support recurring expenditures. Treasurer Fitch also launched her Treasurer's Education About Money (TEAM) initiative this academic year in Mississippi high schools, raising the bar for personal finance education in an effort to change Mississippi's financial culture.



Annual Debt Affordability Study Aids Lawmakers in Assessing Effects of Long-term Debt

The Office of the State Treasurer began preparing the State’s first Debt Affordability Study in the summer of 2013. The study was released in March 2014 and received very positive reviews both here and nationally.

The study is aimed at facilitating better planning for future borrowing needs and long-term budgetary decisions. In order to assess the impact on General Fund Revenue of the State’s debt service requirements for current and projected debt service over the next five years, the creation of the Debt Affordability Study was deemed vital. The development of a financial model helped measure the impact of changes in annual debt service payments and the revenues available for debt service. Also, the study evaluates the impact of issuing additional debt (when considering current economic conditions and revenue forecasts).

The Debt Affordability Study is at essence a tool for policymakers as they assess the impact of debt on the State’s fiscal position. The Study, which will be updated annually, will enable legislators to make informed decisions regarding capital spending and economic development needs. The data analyzed in the study have been separated into categories that represent the largest historical borrowing needs: Capital Improvement, Transportation, and Economic Development. The State Economist provided guidance on current and forecasted revenues. The latest version of the Study will be completed in early 2015.

THANKSGIVING WEEKEND SPENDING -BY THE NUMBERS-

BLACK FRIDAY
SHOPPERS:
86.9 MILLION

OVERALL SPENDING:
DOWN 6.4%

ONLINE SPENDING:
\$159 MILLION

POPULAR STORE TYPES:
DEPARTMENT- 50.7%
DISCOUNT- 34.6%
ELECTRONICS- 29.1%

POPULAR PURCHASES:
APPAREL- 54.5%
TOYS-32.6%
ELECTRONICS- 34.2%

SHOPPERS MAKING
PUCHASES BY
SMARTPHONE:
45.4%

The survey, conducted November 28-29, 2014 by Prosper Insights & Analytics for NRF, polled 4,631 consumers and has a margin of error of plus or minus 1.5 percentage points.



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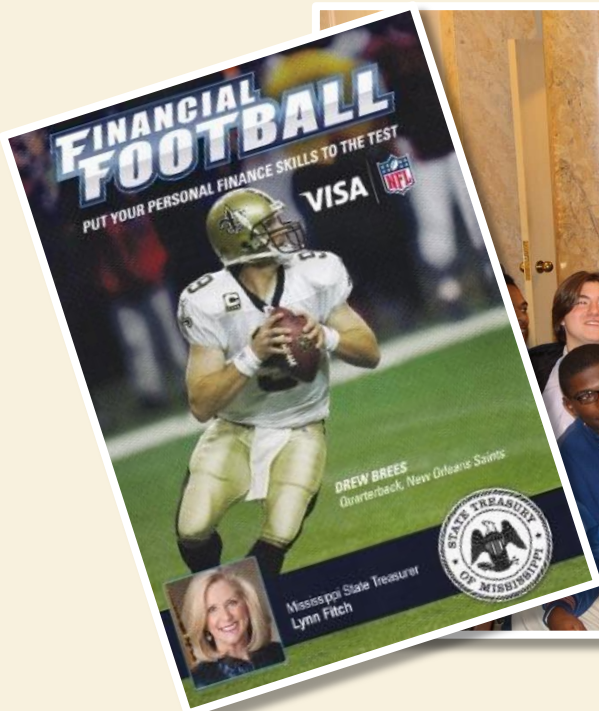
Office of the State Treasurer Lynn Fitch

Ole Miss Hall of Famer Ken Lucas, Treasurer Fitch, Regions Bank, and VISA Inc. Play Financial Football

Ken Lucas, 2014 inductee into the Ole Miss Hall of Fame and former corner back for the Seahawks and Panthers joined Treasurer Lynn Fitch, Regions Bank and Visa Inc. on November 18th to tackle head on the issue of financial literacy improvement among Mississippi teens. They showcased a statewide effort to improve the money management skills of high school and middle school students with Financial Football, a free educational video game and classroom curriculum developed by Visa Inc. The game is being distributed by the Treasurer's office to every public middle school and high school in Mississippi. Regions Bank and Visa are working with the Treasurer to share the financial information and skills with students.

Treasurer Fitch kicked off this financial literacy campaign at the State Capitol in Jackson with help from Ken Lucas, and Regions Bank. Lucas and Treasurer Fitch rolled up their sleeves and led teams of students in a hard-fought, high energy game of Financial Football. Earlier Lucas, who led the NFL in interceptions in 2004, also shared his personal experiences on the importance of money management with students.

Available online at www.mississippi.financialfootball.com, Financial Football puts students' fiscal knowledge to the test in an online simulation game environment by combining the structure and rules of the NFL with financial education questions of varying difficulty. Visa has also released the game as a free iPhone app on iTunes, along with an optimized HD iPad version.





TREASURY TEAMS COLLECT 3,442 POUNDS OF FOOD FOR STEWPOT COMMUNITY SERVICES

Staff members at the Office of the State Treasurer competed in a friendly Treasury Community Service Challenge in November to see who could collect the most non-perishable food items for Stewpot Community Services. Eight teams battled it out for 10 days and in the end, the winners were the families that Stewpot serves. Over 3,442 pounds of canned goods and water were collected.

"We have the most thoughtful and generous people here at the Treasurer's office," said Treasurer Lynn Fitch. "I am so proud of how much they did to serve this worthwhile organization."



The winning team for our Treasury Community Service Challenge was "Dazed and CAN-fused" with a winning total of over 1,000 pounds in canned goods and water.

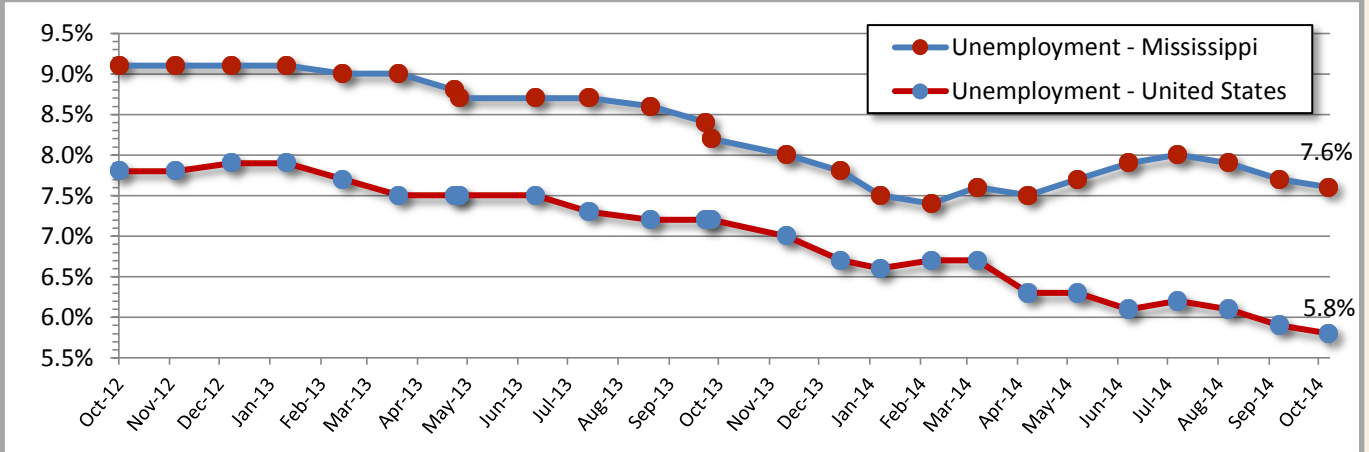


Dumbledore presented the Silver Cornucopia.



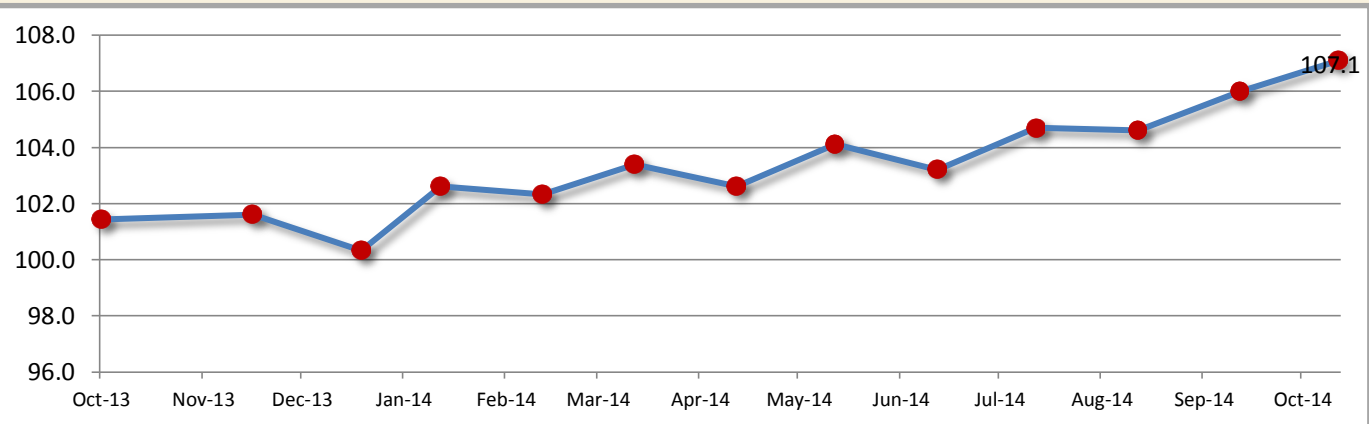
ECONOMIC STATISTICS

MS UNEMPLOYMENT RATE – OCTOBER 2012 THROUGH OCTOBER 2014



The Unemployment Rate is the percentage of the total labor force that is unemployed, but actively seeking employment and willing to work. According to the October "Mississippi Business" newsletter published by the University Research Center (Mississippi Institutions of Higher Learning), "...employment growth will be less than 1% for 2014." Mississippi's seasonally-adjusted unemployment declined by .1% in September to 7.6%.

LEADING INDEX – OCTOBER 2013 THROUGH OCTOBER 2014

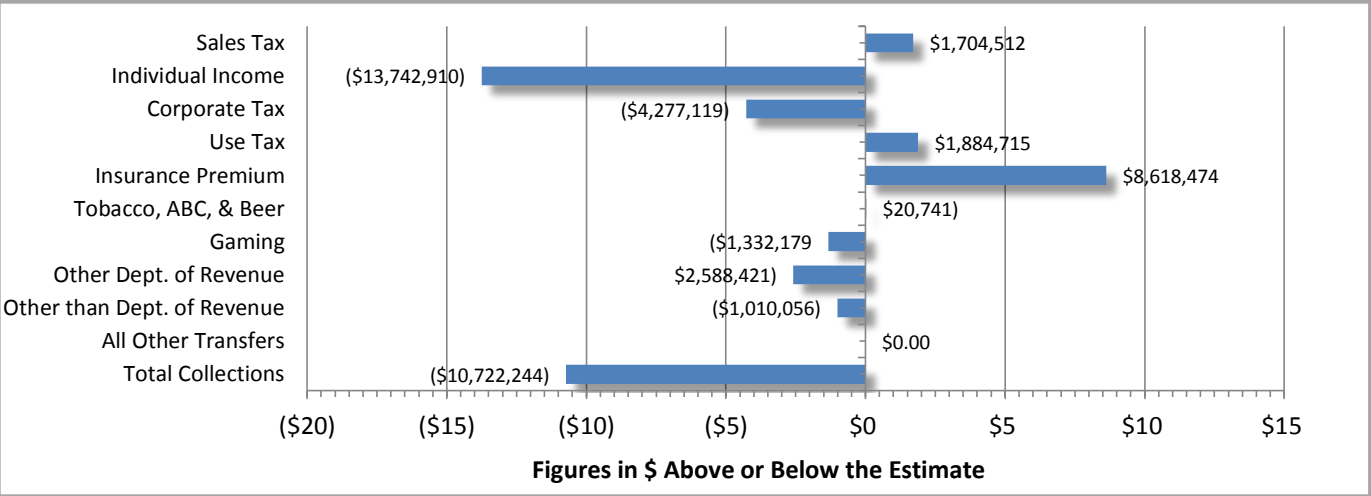


Components of the Leading Index include average weekly manufacturing hours, average weekly initial claims for unemployment insurance, manufacturers' new orders for consumer goods and non-defense capital goods, building permits and stock prices. Other components are indexes of supplier deliveries and consumer expectations, M2 money supply and the interest rate spread between 10-year Treasury bonds and federal funds. For the first time in over a year, in October the MS Leading Index increased for the 2nd consecutive month. The MLI rose 0.8% in October and its value was 107.1 compared to one year ago. The value of the MLI is up 8.6 % over the past 6 months. (Source "Mississippi's Business" – A Publication of the University Research Center, MS Institutions of Higher Learning).



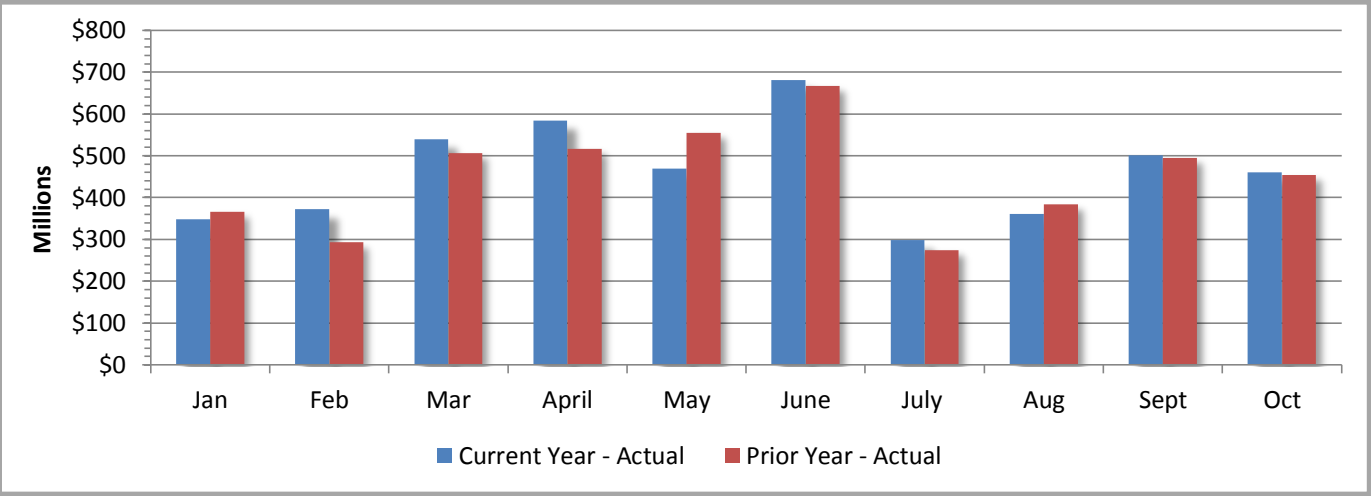
REVENUE COLLECTIONS

REVENUE (ACTUAL VS. ESTIMATED)



Total collections for October FY15 were (\$10,722,244) below the sine die estimate. Department of Revenue sources were (\$9,712,188) below the estimate and Other than Department of Revenue collections were below the estimate by (\$1,010,056). The major revenue sources were above or below the estimate in July as shown above. (Source: LBO)

REVENUE (ACTUAL – CURRENT YEAR VS. PRIOR YEAR)

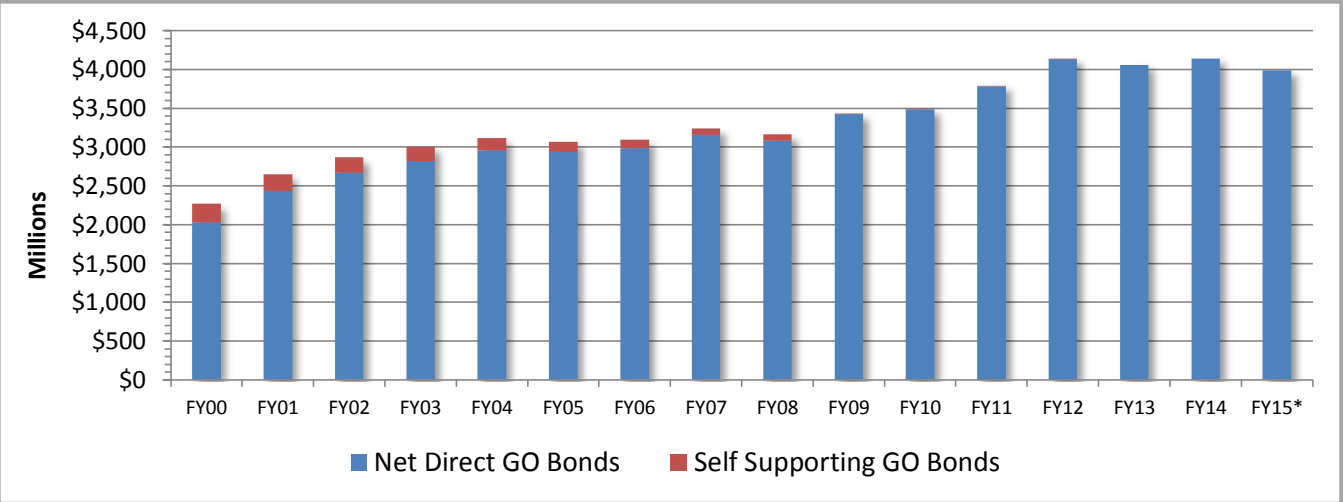


The above chart illustrates the General Fund revenue collections by month as compared to the prior year.



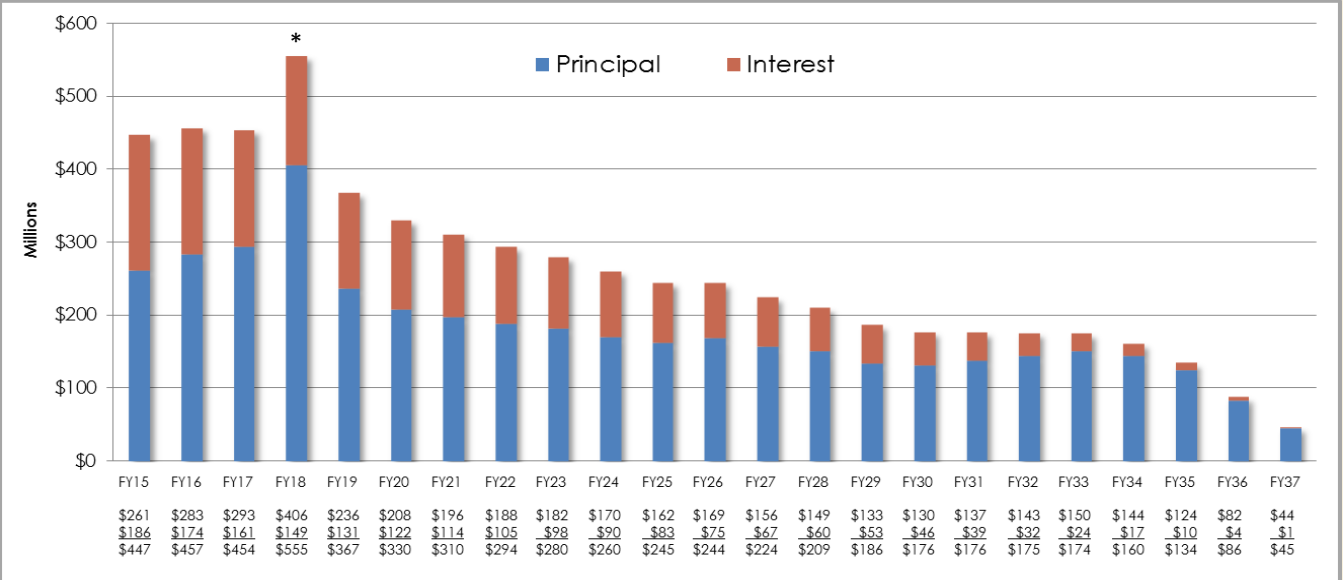
BOND DIVISION

BOND INDEBTEDNESS – AS OF OCTOBER 2014



The chart above illustrates Historical Bond Indebtedness for the State. Total Indebtedness has leveled off under current leadership and the State stands at \$3.985B currently through October 2014*.

DEBT SERVICE FORECAST



Illustrated above are the future debt service payments for the State through FY37. It is important to note that the spike in FY18 is attributed to a balloon payment from the floating rate bonds. It is the intent of the State Bond Commission to restructure those bonds and extend the maturities at that time.